

May 8, 1996

LETTER 1199

INFLATION? The government says "No." The facts say "Yes," and the money market says "Yes." The US economy is heating up, and so are the prices. The commodities have surged: lead up, tin up, grains going wild, CRB Commodity Futures Index at multi-year highs. But there's more. New York real estate is surging, homes in California are moving faster, auction prices are heating up, car prices are rising. According to the latest *Liscio Report* [(201)744-4574]: "Even wages are rocketing higher. The wage component of the employment cost index, which economists will tell you is the best indicator of the price of labor, rose at an annual rate of 4% in the first quarter, its fastest pace in six years." Even the price of sports franchises is surging. (*Financial World* in its latest issue states that the Dallas Cowboys are now worth what? \$272 million!)

Franchise values spiral upward

FROM NEWS SERVICES

The values of pro sports franchises had another bullish year, in many cases outper-

IN BRIEF

formed last Thursday night after

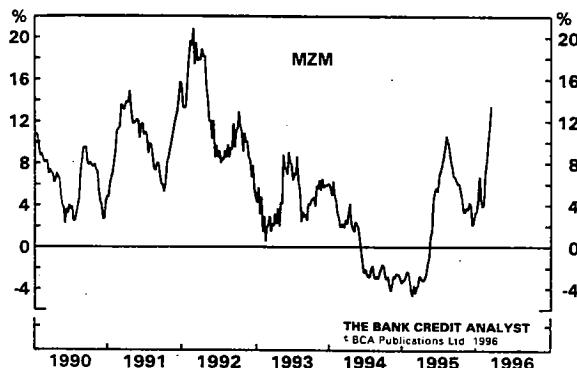
surgery for a brain aneurysm. Taylor, 71, underwent surgery on Tuesday for a blister on a blood vessel in his brain, said Chris Verrilli, a spokesman at Riverside Methodist Hospitals in Columbus.

If there's a single key to gauging inflation it's the combined price levels of oil, lumber and copper. Oil and lumber are in strong up-trends, and copper is rising but at a slower pace. But all three are heading higher.

Finally, of course, there's the ultimate "verdict of the marketplace," the action of the bonds. And the bonds are saying that despite what the Fed is telling us, inflation is "blowin' in the wind." Treasury bonds are currently flirting with their recent lows -- and 7% yields on the long bond are only a few ticks away.

THE PICTURE: The stock market continues to be flooded with liquidity. Each week brings in upwards of \$4-5 billion in new cash -- and all this money is slated for equity accounts. Furthermore, corporations have been buying back their own shares at a near-record pace.

As far as money growth, it's there, and it's increasing. MZM or money of zero maturity, is a broad monetary measurement that has become a favorite of many economists. MZM includes currency, demand deposits, money market mutual funds and savings accounts. The chart below is clear enough -- the MZM money supply is surging (the chart, courtesy of the *Bank Credit Analyst*, shows the 13-week rate of change, annualized). So on the face of it, the investment world appears programmed for higher prices -- both for stocks and tangibles.



Apr. 26 DJIA 5567.99; PTI 4525; A-D Ratio +0.98
May 3 DJIA 5478.03; PTI 4516; A-D Ratio +0.50
Dow Yield: 2.21%; Dow Price/Earnings: 17.8
Dow 200-day MA: 5101; Dow 30-day MA: 5582
Dow Times Book Value: 4.19; PTI 89-day MA: 4460
Percentage of Undervalued Blue-chips: 2%!
Gold 200-day MA: 392.27; Gold-PTI: 699

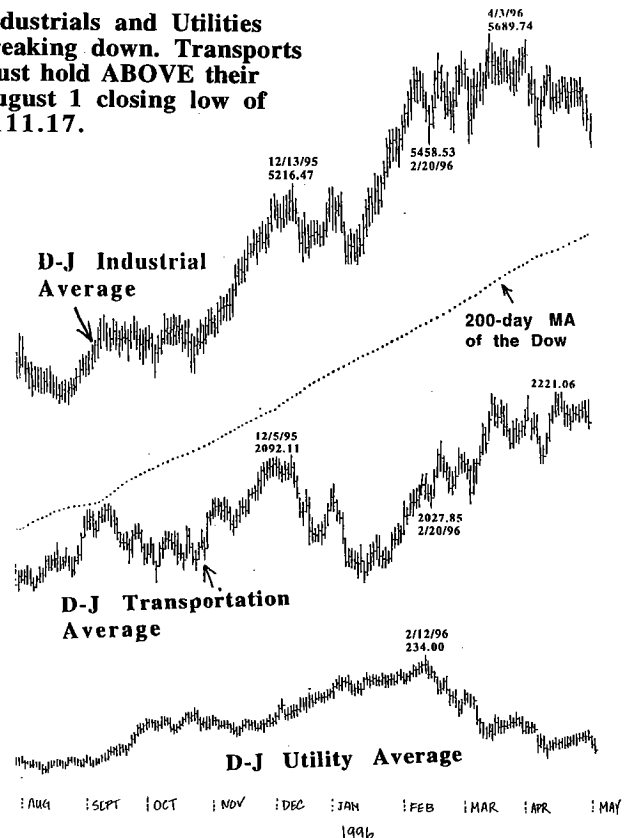
But wait -- there's a fly in the ointment, and it's this -- the S&P 500 Stock Index hit its record high of **661.45** back on February 12, almost three months ago. And the Dow recorded its own bull market high of **5689.74** a month ago on April 3. So despite the record inflow of dollars into Wall Street, neither the S&P nor the Dow has been able to record a new bull market high.

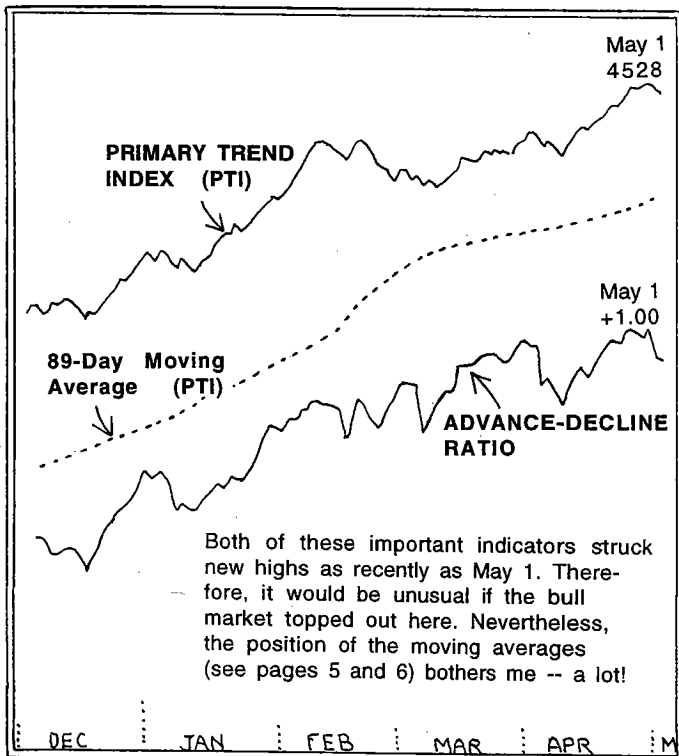
In the meantime, the NASDAQ Index has been roaring to consecutive new highs accompanied by record volume of near one billion shares on selected days. So we have the picture of the blue-chip Dow stalling while the much more speculative NASDAQ is going through the roof. In the past, when the investment-grade blue-chips hesitated while the more speculative issues headed higher, it was cause for concern.

At this point I can make a reasonable case for either the bulls or the bears. Therefore, let's examine both sides of the equation.

BULLS: The bulls can argue that we've seen this same type of action time and time again over the last few years. Here's how it works. Buying and selling appears to be in equilibrium, and the market appears to be churning. Then at some point buyers absorb all the offerings, and the averages break out to the upside. So it's

Industrials and Utilities breaking down. Transports must hold ABOVE their August 1 closing low of 2111.17.





really been a repetitive pattern -- a consolidation, a clean-up of offerings, and then another upside breakout. This could be what's happening now. Bolstering this view is the fact that my Primary Trend Index (PTI) has been hitting new highs.

BEARS: What about the bearish position? I'm not even going to go into the overvaluation argument; everybody knows this market is overvalued -- but it's been overvalued for the past four years, and that hasn't stopped the upward progress. So what can a bear say here?

A bear can say, "Look, the hype goes on and on, the huge volume continues, junk-speculations are coming out of the walls, the financial magazines feature happy headlines week after week -- but still no highs in either the Dow or the S&P. The market could be forming a huge 'rounding top.' And nobody seems to be noticing it. Each day opens with higher prices, and as the session progresses selling comes in and the averages back off, often closing lower. No, this is a distributing market, and it's a dangerous market."

The Russell stance is to adopt a position of caution and watchful waiting. And yes, I'm aware that I'm influenced by past experience. For instance, I know that persistent action by LARGE investors generally sets the trend of the market. The movements of the Dow, more than any other index or average, represent the action and the opinions of big money, investment-grade money. I know that the Dow tends to set the trend -- and in due time the rest of the market will follow.

Conclusion: We have the picture of an excited public coming into the market with new billions of dollars and running up the prices of untested initial public offerings and NASDAQ stocks -- and all the while the big blue-chip stocks churn and back-and-fill. It's a picture that I've seen many times before, and it's one that I don't particularly care for.

At this point I'm keeping my eyes glued to the **PTI**. If this market is to run into trouble, that trouble will show itself in the action of the PTI. A good deal of what I've written above is opinion and conjecture. The PTI is *reality*. It tells us what's actually happening, day by day.

NOTES: It's a Wall Street "axiom" that during election years, specifically from May to election time, the market is **ALWAYS** higher. Those who own my chart book of the Averages might check on this thesis. The fact is that in the election years 1956, 1960 and 1992, the market during the May-to-December period was down. In the election year of 1976 the market moved sideways. During the election year 1988 the A-D ratio moved down for most of the year. So much for the election-year thesis.

Writes James Stack (*Investech Market Analyst*): "Since the start of this bull market in 1990, assets under management by equity mutual funds have mushroomed from \$226 billion to \$1.374 trillion. Think about that . . . \$4.17 of every \$5.00 in stock mutual funds today has not ridden through even a 10% correction, let alone a bear market."

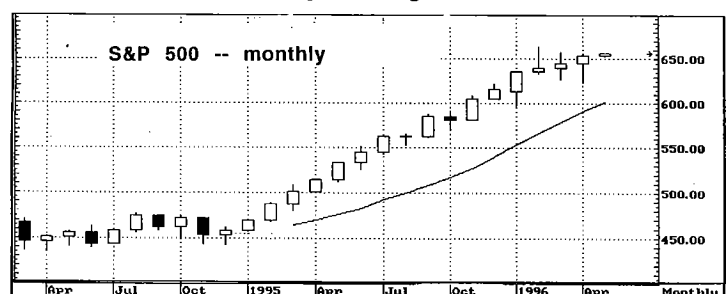
Action and Reaction: Gerry Weiss of La Jolla's *IQ Trends* notes, "The D-J Average has been in Overvalued territory for four years -- the longest period of Overvaluation in history. But remember, the Dow was Undervalued for four years from 1978 to 1982, before the onset of a major bull market . . . Only low dividend yields, which historically have signaled major market tops, can reverse a primary bull market. We contend that benchmarks of value which have been valid for 100 years should not be dismissed out of hand. According to some, the delay is a bad omen, not a good one. It could signal an oncoming bear market of monumental proportions, just as the four year period of Undervaluation predicted a long-lasting, major bull market."

CHANGE: Anyone who's been in this business through a few completed market cycles (a bull and a bear market comprise one complete cycle) learns to watch for one phenomenon, and that phenomenon is -- **change**.

Bull markets (much more so than bear markets) tend to move in repeating patterns. For instance, the pattern in this bull market over the last few years has been a *steady* rise, then a sideways consolidation, then off it goes again on another persistent rise. Incredibly, there hasn't been as much as a 10% correction in recent memory.

Note on the monthly S&P 500 chart that since last December '95 the Dow has held stubbornly above its 13-month moving average. So one of the first things I would look for IF there's going to be a change, would be the S&P breaking decisively below its 13-month moving average. A second indication of trouble would be the S&P breaking below the very critical 630 level. But barring those two possibilities, the **TREND of the MARKET REMAINS BULLISH**.

Of particular interest is the fact that the S&P 500 (see chart and count 'em) has had only one down month in the last 18 months (I'm including the current month of May in this calculation). I don't think this has ever happened before in stock market history. You have to wonder -- how long can this go on?



DON'T EVER SELL: Another interesting phenomenon that has gained widespread acceptance is the thesis that you never sell stocks, even through severe corrections. Since "this market is headed ever-higher," and since timing is so difficult, if not impossible, you simply buy 'em and hold 'em (just as this article from *Investor's Business Daily* indicates). I think, by the way, that this "don't ever sell" concept is the basic rationale behind the public's massive buying of stocks. People believe that money in

stocks is money saved, much like money in the bank. Old timers have reason to differ.

Thursday, April 25, 1996

Investor's Business Daily — The New Standard I.

Sitting Through Corrections Has Paid Off

Pioneer Uses '87 Crash To Show How Investor Patience Works

By Doug Rogers
Investor's Business Daily

Many gamblers know "Texas hold 'em" as a high-anxiety card game, but it also has been a sound investment strategy for stock funds for more than a decade.

about 13.5% a year.

Investors who doubled their investment on Oct. 19 would have made a killing, ending the year with \$63,561, a 217% gain. That's 25.4% a year.

Didn't have enough to double your investment? How about an investment

new money in December 1992 after strong performance led to large cash inflows. Assets jumped to \$168 million at the end of 1992 from \$37 million a year earlier. They leapt again to \$228 million at the start of 1993.

"Things have

PRIMARY TREND INDEX: I developed this composite index back in 1971, and I've computed it on a daily basis ever since. The reason I developed the PTI is that I wanted (needed) an instrument that by its construction could not help but move *with* the market. Or to put it better, I wanted an instrument that by its very construction had to reflect the true underlying trend of the market.

A market continues a trend or reverses a trend through *movement* -- not through any abstract ratios, cycles, short interest statistics or chart patterns. For this reason, the PTI had to be composed of items that only dealt with *action*.

Let's take a typical but confusing market situation. The Dow is rising, the Transports are not confirming, and the Utility Average is breaking down, the bonds are heading lower, but market breadth is still fairly strong. What can you deduce from a mixed-up situation like that? Not much.

This is where the PTI comes in. The trend of the PTI *defines the true trend* of the market. In the above example, if the PTI is rising strongly, there's no question about it, the underlying trend of the market is bullish. If the PTI is flattening out, then we have to be careful, something could be going wrong. If the PTI is declining, then the market is weakening and the confusion is just a cover up for a market that is losing technical strength and will be heading down.

One remarkable property of the PTI is that it is *not given to whipsaws*. Once the PTI moves decisively above or below its 89-day MA, then in the great majority of cases it *continues* in that new direction for a considerable period of time.

What about trend identification? I have always used an 89-day exponential moving average of the PTI as the dividing line between bull and bear designation. PTI above its 89-day MA = bullish; PTI below its 89-day MA = bearish. It's as simple as that.

I have included a chart of the daily PTI from February 1995, when the PTI rendered its last bull signal, to the present. This is the most remarkable rise in the PTI that I have seen. Since crossing above the 89-day MA on February 8, 1995, the PTI has never declined to the point where it was even close to its 89-day MA. Now, 15 months after the "bull signal," the PTI is still well above its MA and actually recording new highs.

What next? The market acts tentative, and the trend appears unclear, although of course, we will classify the trend as "bullish until proved otherwise." My own advice: watch the PTI to see whether it continues to climb to new highs -- or whether it moves down and breaks below its MA. Much as we might like to, there's no way to hurry the verdict of the marketplace.

INVESTMENT POSITION: I just reviewed the chart action of all 30 of the Dow Industrial stocks. Surprisingly, only 11 of the 30 stocks looked clearly bullish. The other 19 appeared either neutral-negative or clearly bearish. The bullish eleven were Allied Chem., American Express, Chevron, Eastman Kodak, Gen. Electric, Gen. Motors, Int. Paper, JP Morgan, Sears, Texaco and Woolworth.

MOO. FRANKLY,
I'M GETTING
NERVOUS!

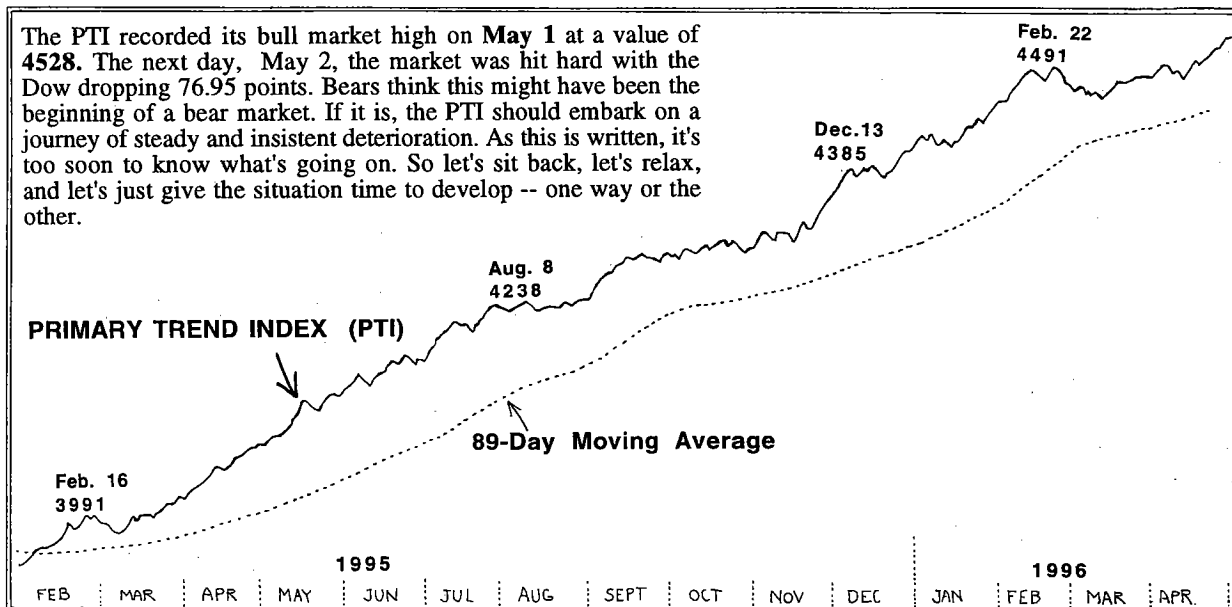


The market can't seem to gain any momentum either on the upside or the downside. But this can change. What we do know is that massive infusions of new money have not been able to move the big averages to new highs. That calls for caution.

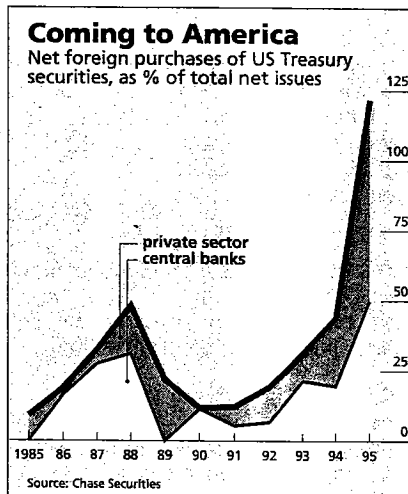
What we're seeing now is revolving strength and weakness. And intense, really zany speculation in selected areas. Personally, I'm watching the show. There's an old market adage that's worth remembering. It's very simple, and it goes like this -- "the market is always there."

NOTES & QUOTES: *Barron's* of April 22 included an excellent article by Jim Rodgers on the subject of inflation. Rodgers believes the world is headed for a bull cycle in tangible goods and inflation. He believes world inventories of foods and almost everything else are *low*, and he sees a growing, wealthier Asia exerting upward pressure on the whole spectrum of tangibles and foodstuffs.

We could be facing rising inflation for another reason. The reason is *rising global liquidity*. The central banks of the world have purchased massive quantities of US Treasuries. These purchases



have resulted in a 25% growth in securities held in custody for foreign monetary authorities at the New York Fed. In fact, the huge foreign purchases nearly single-handedly financed both the US federal deficit and the US current account deficit. At \$559 billion a few weeks ago, foreign holdings of Treasuries are almost 50% higher than the Fed's own holdings of Treasuries (see chart). Asks London's *Economist*, "What explains this foreign infatuation with America? For part of the answer, look to Asia. To hold down the value of their currencies against the dollar, Asian central banks -- and especially the Bank of Japan -- spent a fortune buying American securities last year. Private investors also bought a record \$99 billion worth of Treasuries, in part because very low Japanese interest rates gave them a huge incentive to borrow in yen and invest the cash in higher-yielding American bonds." According to one expert, there will be a wave of commodity inflation for at least the next two years because of the recent rapid growth in the world dollar base -- at a six-month seasonally adjusted annual rate of about 15%.



Two weeks ago in Geneva, Switzerland, a Swiss wristwatch sold for a world record \$1.7 million at auction, more than double the previous top price for a watch. The watch -- a platinum Patek Philippe made in 1939, complete with moon phase and chiming gongs.

Auction: A week later, what is now known as the "Jackie 0,000,000 auction" took place. I thought the wild and crazy prices paid for Jackie's stuff told us a lot about the psychology of today (and it tells us something about the prices being paid for stocks). For instance, bidders paid \$445,000 for a rocking chair, \$520,000 for a cigar humidor, \$33,000 for a small footstool, \$85,000 for a cigarette lighter, \$772,000 for a set of Kennedy's golf clubs. The ultimate irony is that in autograph-collecting circles, Kennedy material has actually been leveling off. Fact, you can buy letters signed by President Kennedy himself for around \$2,000 to \$4,000. Christie's will be auctioning an authentic letter handwritten by President Lincoln in which he predicts the end of slavery. Price around \$400,000. Which would you rather have, the Lincoln letter or the Kennedy humidor? The auction was a testament to ultimate financial insanity. I predict that three years from now the "Jackie purchases" will have lost 75% to 90% of the prices paid at the auction and much of this junk will not even have a market.

Writes columnist Dan Kadlec in the April 26 USA Today: "The Kennedy auction and other IPOs point up one thing for sure: it's a great time to be selling assets . . . The Kennedys recognize that. So do other rich folks. Warren Buffett is issuing new shares in his Berkshire Hathaway and as a major shareholder of Cap Cities/ABC, he recently signed off on its sale to Walt Disney. Ted Turner is trying to sell Turner Broadcasting, Laurence Tisch recently sold CBS, John Kluge recently sold his stake in WorldCom. Do they know something? . . . It's not too big a stretch to call the IPO market a mania too. Company founders are smart to sell. But what does that say about buyers?" **Russell Comment:**

My wife, Faye, a corporate lawyer with a large law firm, specializes in IPOs and mergers. Faye is *so busy* I almost have to make appointments to see her.

Let the Good Times Roll: The demand for Berkshire-Hathaway stock was so huge that CEO Warren Buffett more than doubled the size of his offering of Berkshire, from 100,000,000 share to 250,000,000. Then last week he increased the issue a second time -- to 350,000,000. Buffett, with a long history of knowing bargains, obviously believes that the biggest current bargain is selling common stocks to the public.

It looks as though the brokerage business has no choice, if they haven't got an intermarket operation, they're going to have to get going. A few small outfits are now offering brokerage services via the Internet and their charges are already less than either full-service or even discount brokers. The word is that the Internet is going to fundamentally restructure the brokerage business; as the song goes, "It's only a matter of time."

Speaking of computers, last week I sat in with my son at a session in which the director of admissions at Berkeley talked to new students. The director said that long lines (of students) used to be the bane of Berkeley and most other colleges, but that's over. Students now sign up for classes via computers and the new chancellor hates lines. Furthermore, if he sees anyone on the Berkeley campus lining up for anything he sees red and wants to know why.

Big, Bigger: When I first started in this business back in the '50s the 30 Dow Industrials comprised about 40% of the value of the entire NYSE. My guess is that the 30 Dow stocks now comprise about 25% of the Exchange. However the biggest 50 stocks on the NYSE now comprise 40% of the value of the entire Exchange. Moreover, today's huge corporate mergers will probably concentrate economic power even further in the hands of the giants.

Third political party? Personally, I doubt it, but with Perot you never know. The following is from columnist Paul Craig Roberts: "The Republican difficulty is compounded by two factors. The media are against them, and their staffs cannot be aggressive except at great personal risk. Democratic staff members can fight for causes, because they have rich liberal foundations and universities as career safety nets. Republican staff members have no support systems. Their careers depend on doing small favors, not on making waves. In the end, the electorate is going to follow the party that can lead with conviction -- even if it is in the wrong direction. The feebleness of the Republican leadership, combined with the ineptitude of Democratic policies, is the source of Perot and Buchanan third-party stirrings."

Russell Comment: I continue to see a Clinton victory and very probably even a Democratic victory in Congress. Clinton continues to run rings around the Republicans, this even as syndicated columnist Cal Thomas terms Clinton the "slickest campaigner, promise-breaker and fence-straddler in the history of politics." As for me, I believe the only thing that could change the picture would be a bear market between now and election time. With it all, I still can't fathom how the American people can stomach this status-quo, both-sides-of-his-mouth, hypocritical president. Latest theory -- Clinton stealing so much of the Republican platform that he will be running as the first Republican-Democrat.

From the lead editorial in the April 26 WSJ: "The best description we've heard of Mr. Clinton is he's the first totally existential President, for whom there is no past, no future, only the present moment. It is not so much that he lies in any calculating sense, but that he has the capacity actually to believe whatever the moment requires. This allow him to project his patented sincerity, as deep-felt on one side of the issue one day as on the other side the next. He is consummately the man from whom you would buy a used car."

Men, Women: A NY Times/CBS poll shows that male voters are split evenly between Dole and Clinton, but women comprise the real swing vote. Women are pro-Clinton 52%, pro-Dole only 34%.

Hollywood: Planet Hollywood, the chain of 30 restaurants, came out with an IPO two weeks ago. It was an interesting situation. The shares, which represent only 10% of the firm, were originally priced at 15 but were boosted to 18 at the last minute. On the day they went public the shares sold to as high as 31, then settled back into the high 20s. At the market price, Planet has an astounding market value of \$2.9 billion (what, for 30 eateries?). Some 21 celebrities own 18.5% of the company, making their stake worth half a billion dollars or \$26 million for each participant. Planet has four years of losses, but last year the company earned \$20.7 million. **Russell Opinion:** Planet is a fad, and I predict that within five years or less the public will be bored with the entire "theme restaurant" concept. Planet Hollywood, selling at 10 times sales and 90 times earnings, is a testament to bull market euphoria.

In the meantime, Hollywood is reeling with the problem of too much product. Said Jan de Bont, the director of "Speed," "You don't want to think about the competition, because there's so much of it, and it's too depressing." In 1995 there were 235 major studio releases vs. 194 in 1994. This year the new releases will be even higher. Says Harvey Weinstein, co-chairman of Miramax, "This is a horrible marketplace. Four, five movies open each weekend and cannibalize each other. There isn't enough playing time. And then you have to spend a fortune on advertising to keep up with it all." Agrees Robert Daly, co-chairman of Warner Bros., "The killer is you have all these extraordinary movies and nobody has time to exploit them without another big movie being on top of you."

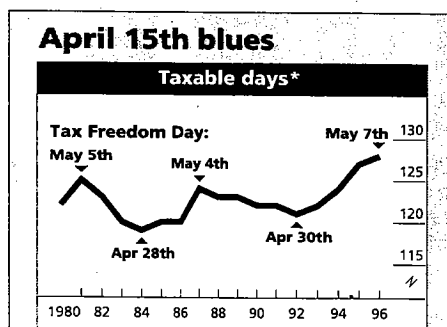
Russell Comment: Hollywood's predicament is just another bull market phenomenon. In my opinion, what it means is that it's too easy today to get movie financing. That will change in time (as will the sky-high salaries of Hollywood's leading stars).

Actually, Showtime, HBO and a few smaller outfits are turning out credible (often excellent) films in the \$1 million to \$3 million range. Often these will appear on TV, then go directly to VCRs. This could be the wave of the future in film-making.

Teaching: The average pay of college faculty members has risen from \$33,000 in 1985 to \$50,980 in 1995-96. At the top 10 paying universities (Harvard, Stanford, Caltech, Princeton, Yale, NYU, etc.) the average current pay for a full professor runs between \$96,000 and \$109,000.

Astounding Figures: From an article on Louis Farrakhan in the mindlessly liberal *New Yorker* magazine (April 29): "Thirteen decades have passed since Emancipation, and half of our black men between twenty-four and thirty-five are without full-time employment. One black man graduates from college for every hundred who go to jail. Almost half of all black children live in poverty." Mind-boggling statistics, but notice the phrase "our black men." I wonder, would the article have referred to "our Jews" or "our Christians" or "our Mormons"?

TAX ME: Americans now work 128 days from January 1 to May 7 to pay their taxes (this includes income taxes, sales taxes, payroll taxes, property taxes). In high-tax states you have to work even longer. These 128 days mean that 36% of the fruits of our labor go to keep "big government" functioning. The *Economist* of London published this chart showing the number of taxable days going back to 1980. At present we're working longer than ever to pay the taxes. It's a disgrace, particularly when you think of what we get for our labor.



Friend or Enemy?: Today there's a general attitude on the part of the public that suggests that the "market is your friend." Meaning, if you buy good stocks and sit with them that somehow Wall Street will be kind to you and you'll retire in your old age with more money than you know what to do with. Another way of saying this is that "buying stocks is just another way of saving."

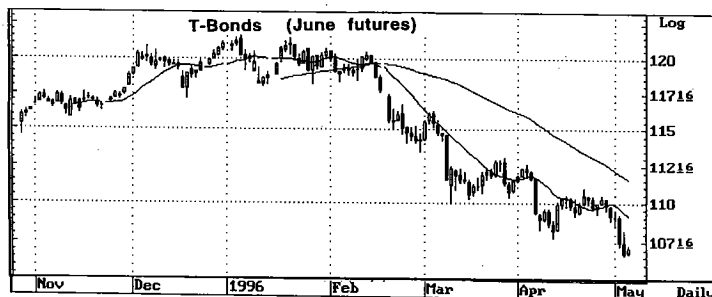
Old-timers, veteran market practitioners know that this is a lie. These "market geezers" are not cynics or pessimists, they're realists. They know from experience that the market is your enemy. They know that the market is there to frustrate you and part you from your money. I hate to talk this way at a time when euphoria reigns on Wall Street and Main Street, but believe me, the market is NOT your friend.

The "trend is your friend" is an adage that has been around for years, but that's a far cry from saying that the market is your friend. The trend is your friend as long as you are on the right side of the trend, but unfortunately, history tells us that the public stays on the right side of the trend for only so long -- and then the market reverses and the trend becomes a friend of the opposition (the opposition, by the way, is usually the professional money).

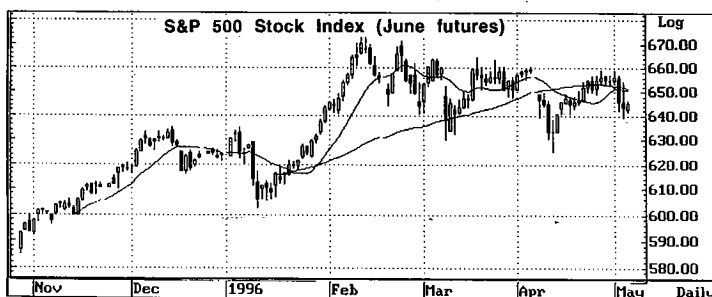
I write the above at this time because I've never seen a time when there is so much sentiment to the effect that the market is there to help you. Believe me, the market is not there to help you or me. The market is a wily creature, and it's there to part you and me from our "long green." Furthermore, if you have a weak area -- unreasonable fear, greed, impatience, a prejudice, a nutty area -- the market will zero in on that weakness and make you pay dearly for it. 'Nuff said. Mull it over.

CHARTS: There are a lot of interesting charts developing, and I want to present a few of them. With each I have included a 13-day and 55-day moving average. In each case, the position of the shorter 13-day MA above or below the 55-day MA defines the intermediate-term trend.

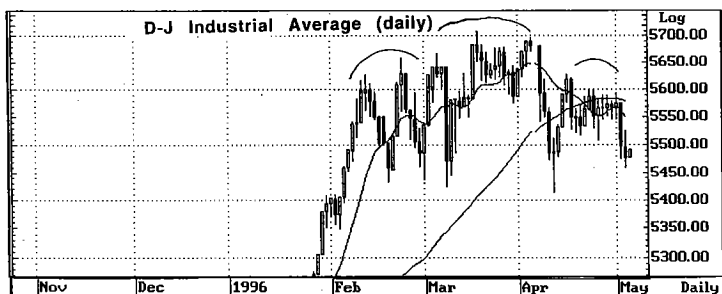
The first chart shows the Treasury bonds. Last week the T-bonds behaved very badly; they dived to new lows, with the June Bond contract dropping below 108. This is probably the KEY chart in the current market. At its current price the long bond yields slightly more than 7%, 3.2 times the mini-yield on the S&P 500 or the Dow.



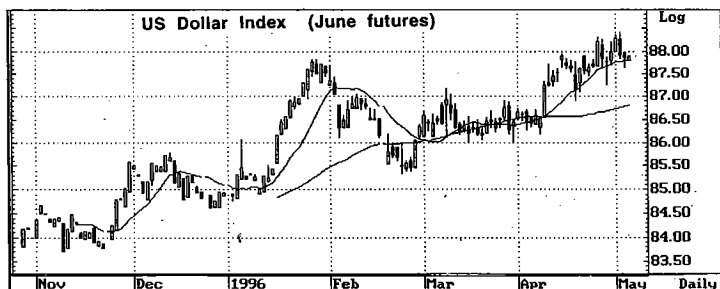
The next chart shows the daily S&P 500 (June option). Remember, the S&P recorded its high on February 12, almost three months ago. Note the 13-day MA breaking down in early April, then coming back to touch the 55-day MA. The picture here is one of equilibrium or maybe we should call it confusion. If there's a trend in the S&P, it's not clear.



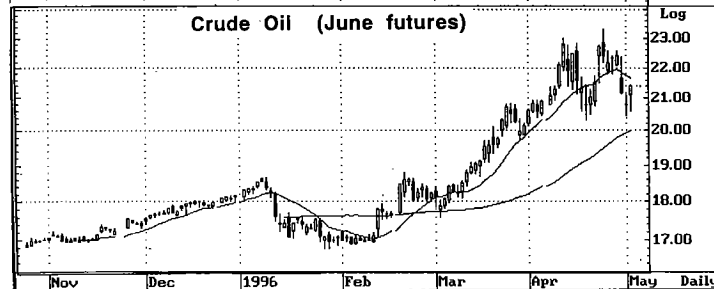
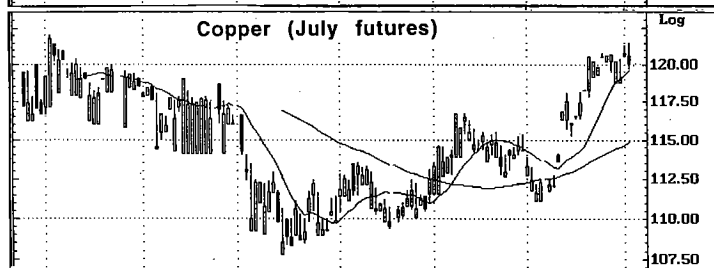
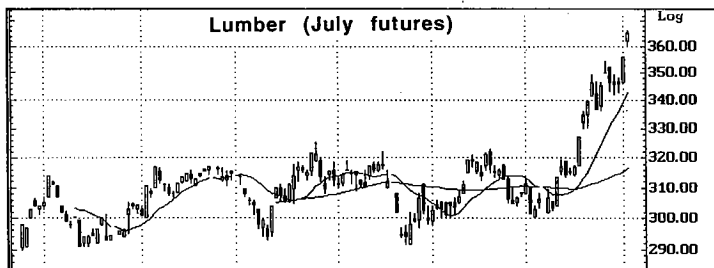
I've been fascinated with the Dow. It appears to be forming a massive "head-and-shoulders" top. The critical support level comes in at 5455. The 13-day MA is below the 55-day MA and the current price is below both. The only trouble with this analysis is that the toppy pattern is almost "too obvious." Nevertheless, I haven't read anything about the structure from other commentators. It's a structure worth watching.



The next chart shows the US Dollar Index (June futures). The dollar has been strong, having recently rallied above its January peak. Note that the 13-day MA crossed above the 55-day MA in early April, and since then the Dollar Index has been holding bullishly above the 13-day MA.

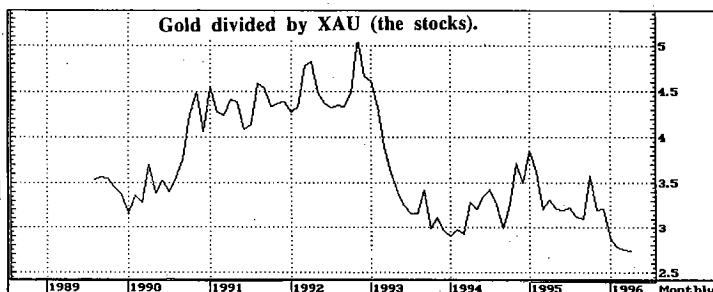


Then we have my three "key inflation" items, oil, lumber and copper. Here they are, and they're all bullish. Your turn, Mr. Greenspan.



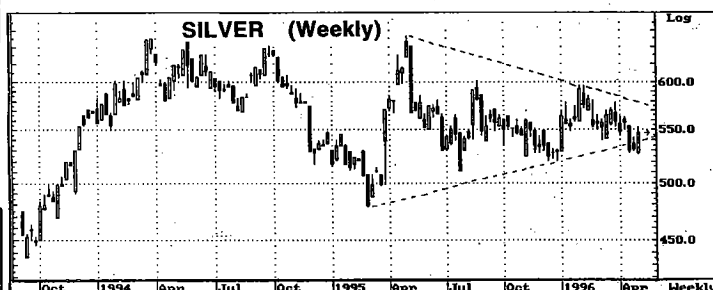
GOLD: Something strange is happening in the world of gold, and the first chart shows us what it is. Here we see gold divided by the XAU Gold/Silver average. The ratio is currently at a multi-year low, and although my statistics don't go back any further than 1989 I understand that the ratio is now at an all-time low. This means that either the gold stocks are at a record high compared with the price of gold or that gold is at a record low compared with the price of the stocks.

So which is correct? Is lagging gold saying that the stocks are too high? Or is the much stronger XAU telling us that gold is far behind and nearing the point where it should surging higher? Time will tell.



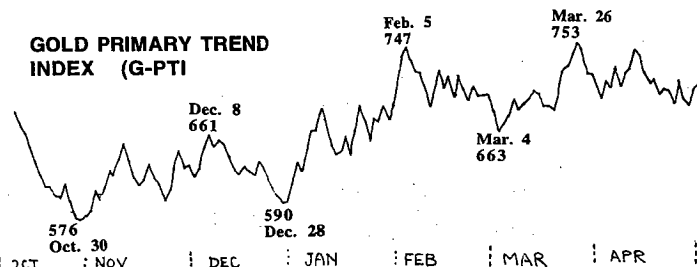
In the past, the stocks have tended to lead the metal, so it's a bit surprising that the current huge lead of the precious metal stocks hasn't, so far, been able to move gold, the metal, higher. Ah, they never make it easy for you in the markets.

With most of the other commodities in bull trends, silver might be the cheapest thing around. This chart shows the weekly action in silver since late-94. I guess you could call it a picture of frustration, as far as the holder of silver is concerned. Even if you bought silver at the 1995 low of \$4.79 you haven't done that well.



Silver seems to have formed a huge triangle, fallen out of the triangle temporarily, then rallied back into it. The obvious upside target for silver is \$6.00. I'm waiting.

My Gold-PTI tells a story of trading range. The G-PTI hit a high of 753 on March 26, but immediately the G-PTI fell back. The plus is that it held above the March 4 low of 663. Next stop? Hopefully, above 753, but right now it's trading range, trading range.



LATE NOTES: The moving averages on the Dow, S&P 500, and Bonds are all in the bearish mode with the 13-day Moving Averages below the 55-day MAs (study the charts on pages 5 and 6 carefully). Let's see if these charts can reverse to the bullish mode. If they can't -- we're going to see trouble, count on it.

Next Mailing: May 22, 1996